

Asset Class Glossary: Real Estate
Policy: Equity Real Estate
September 16, 2005

Appreciation Return

The percentage change in the market value of a property or portfolio, adjusted for capital improvements and partial sales, over a period of analysis.

Co Investment

A direct investment into a portfolio company by limited partners alongside the general partner and generally done so on similar terms.

Convertible Mortgage

An investment structure wherein the lender (the System), receives mortgage interest and an option to convert a portion or all of the loan balance into equity.

Convertible Participating Mortgage

An investment structure wherein the lender's (the System) return consists of mortgage interest plus potential contingent interest, expressed as a percentage of property operating cash flow and/or property appreciation upon sale or refinancing, and where the lender has an option to convert a portion or all of the loan balance into a percentage of equity.

Direct Investment

An investment in which the System has ownership interest in a property or group of properties.

Equity Real Estate

Refers to real estate investments in which the investor (the System) has an ownership interest. The term is generally used in contrast with conventional mortgage investments.

Fair Market Value

An accounting term defined as the highest cash price a property would bring if exposed for sale in the open market by a willing seller to a willing buyer with both parties to the transaction being fully informed of all the uses and purposes to which the property is reasonably adaptive and available.

Ground Lease

A lease that grants the right to use and occupy land for a stated term. Ground leases exist in situations where the investor (the System) owns the real estate improvements but does not own the land underlying the improvements.

Income Return

The component of return derived from property or portfolio operations during a period of analysis, expressed as a percentage of property market value.

Indirect Investment

An investment in which the System has an ownership interest in an entity (i.e., a corporation) which primarily invests in real properties.

Land

Generally entitled vacant land held for potential development or resale.

Leasehold

The right to use and occupy real estate for a stated term and under certain conditions. Leasehold interest is conveyed by a lease.

Leverage

A condition where a portfolio's market obligation may exceed the market-value-adjusted capital commitment by the amount of borrowed capital (debt).

Leveraged Equity Investment

Refers to investments in real estate in which the investor (the System) has an equity interest and the purchase or ownership of the investment is or partially financed with debt.

National Council of Real Estate Investment Fiduciaries Index (NCREIF)

A property level performance benchmark for institutionally owned real estate. The benchmark is composed of an income return, an appreciation return and a total return and is calculated on a quarterly basis.

Participating Mortgage

An investment structure where the lenders (the System) return consists of mortgage interest plus potential contingent interest expressed as a percentage of property operating cash flow and/or property appreciation upon sale or refinancing.

Primary Metropolitan Statistical Area (PMSA)

A geographic unit used by the Bureau of the Census for reporting consolidated demographic and economic information. Each PMSA consists of a large urbanized county or cluster of counties that demonstrates very strong internal economic and social links, in addition to close ties to other portions of a larger urbanized area or CMSA (Consolidated Metropolitan Statistical Area).

Public Real Estate Equity Securities (PREES)

Real estate securities, including real estate investment trusts (REITs) and real estate corporations, whose stocks are publicly-traded.

Real Estate Investment Trust (REIT)

Refers to a private or publicly traded company which typically invests in income-producing properties and which qualifies as an REIT under Sections 856-860 of the Internal Revenue Code of 1986. As an REIT, a company must distribute to its shareholders at least 95 percent of its taxable income and is not subject to federal (and typically state) income tax to the extent income is distributed, among other requirements.

Real Rate of Return

A nominal return adjusted to exclude the impact of inflation.

Risk Adjusted Rate of Return

The total return adjusted for volatility of returns over time. That is, for two investments having an equal total return over an investment period, that investment which experiences the least volatility of returns has the higher risk-adjusted rate of return. The standard calculation of risk-adjusted rate of return is the "sharpe ratio," defined as the difference between the investment return and the average T-Bill rate over the same period, divided by the standard deviation of the investment return over the period.

Sale Leaseback

A financing arrangement in which an owner-user sells a property to a buyer (the System) and then simultaneously arranges to lease the property back from the buyer for continued use.

Total Return

The sum of the appreciation return and income return.